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**ECONOMIC GROWTH AND DEVELOPMENT
IN PAKISTAN DURING THE 1980'S**

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INTRODUCTION

During the 1980's, Pakistan experienced annual economic growth in excess of 6 per cent, favorable by any standard. While Pakistan has benefitted from the prosperity of the Middle East region in the 70's and early 80's in terms of exports and manpower, it has since been confronted with the problems of dealing with more than three million Afghan refugees, declining remittances from workers abroad and increased tensions with India along the disputed Kashmiri border. Despite moderate economic growth, per capita income remains under US\$ 400.

Following import substitution policies adopted in the 1960's, the Pakistan economy, up to 1980, was heavily controlled with wide ranging subsidies, price and investment regulations, high tariff and non-tariff barriers and heavy government involvement in commercial activities. Interest rates were controlled and monetary policy relied heavily on direct credit controls and credit rationing.

Since the early 1980's, the Government has moved toward a more open market economy. Many of the above interventions have been rescinded and progress has been made in liberalizing investment and price regulations, and managing the exchange rate in a flexible manner. Slower progress has been recorded in trade

liberalization, with foreign exchange earnings still heavily dependent on agriculture and cotton based manufactures, and privatization of public enterprises. Retention of direct credit controls, the introduction of Islamic banking laws and direct government intervention to make rates of return on financial investments more flexible, have combined to perpetrate inefficiencies in the banking system.

While these adjustments have led to the continuation of moderate economic growth, has growth meant development? Is the average Pakistani better off today than he was ten years ago? Have all the citizenry participated in this growth or have the benefits of economic expansion accrued to a few? And finally are the current growth trends economically and ecologically sustainable into the future? This essay will examine Pakistan's economic growth performance over the past decade, identify what impact it has had on human development and determine the major constraints that require resolution if current trends are to be continued.

GROWTH AND DEVELOPMENT

Building on a vast body of literature, this essay does not assume that economic growth is synonymous with development. The basic objective of economic growth is the creation, accumulation and investment of material wealth. This objective while necessary for human development, is not sufficient to cause or sustain it.

The object of the latter is to establish and sustain an environment that maximizes human choice. Such an environment produces and distributes sufficient wealth so that average citizens have control over economic resources so they can make real decisions about the goods and services they will purchase today and the investments - human and capital - they wish to make to assure a better future. In such systems, citizens have a reasonable assurance that they will be able to participate in governance, that their voice will be heard, and that they will be around tomorrow to participate in the benefits of growth.

Focusing on development, not economic growth, requires that a broad set of indicators be examined. First and foremost is the economy growing at a sufficient pace to insure that individual purchasing power is increasing? Is there sufficient public and private investment in human and physical resources to sustain growth into the future? Is current growth leading to the structural adjustments required to move the economy from a low level agricultural base to the higher productivity associated with industrialization? Second, are human capital investments in education and health services - both necessary to improving the quality of life - occurring at a sufficient rate to assure broad access by all citizens? And third, is the political environment such that the common citizen has a voice in the affairs of the nation, a voice that can be exercised without fear of reprisal.

ASSESSMENT OF PAKISTAN'S HUMAN DEVELOPMENT PERFORMANCE

A. Economic performance.

Pakistan has experienced moderate economic growth since 1975. As Table One suggests, growth in real GDP has been positive since this year, has consistently exceeded five per cent per annum and has led to annual per capita income increases ranging from 2.1 to 4.9 per cent since 1980. In six of nine years in the 80's for which data is available, growth has exceeded planned targets of 6 per cent.

Sound management of the nation's money supply has kept annual expansion between 4.6 and 21.8 per cent, has been instrumental in keeping inflation within acceptable levels, 5.2 to 10.8 per cent annually and has led to gradual real changes in exchange rates. Real exchange rates have slowly but constantly appreciate against the dollar, rising from 11.9 to 16.4 Rupees per dollar since 1981. Maintenance of competitive exchange rates has encouraged growth in merchandise export expansion with export volumes doubling and value more than tripling since 1980. In 1980, total exports, under a fixed and overvalued exchange rate system, were RPS 16.9 billion. By 1988, five years after the adoption of flexible exchange rate policies, the real exchange rates had depreciated 27 per cent and the value of exports was expanding 32 per cent annually, one and a half times faster than imports. Unfortunately, the adoption of more flexible rates, has not reduced imports to levels that has generated positive trade

TABLE ONE. ECONOMIC PERFORMANCE INDICATORS FOR PAKISTAN - 1975 TO 1988

INDICATOR	ITEM	1975	1980	1982	1984	1986	1988
POPULATION							
MID YEAR TOTAL	MIL PER	70.9	82.6	87.8	93.3	99.2	105.4
ANNUAL GROWTH RATE	% PER YR	3.4	3.3	3.2	3.1	3.1	3.1
REAL GROSS DOMESTIC PRODUCT							
PER CAPITA	RP PER PER.	3671	4211	4503	4778	5241	5477
GDP GROWTH RATE	% PER YR	3.9	6.7	6.3	5.6	7.8	5.3
PER CAPITA GROWTH RATE	% PER YR	0.4	2.9	3.5	3.1	4.8	2.3
INFLATION							
ANNUAL RATE	% PER YR	22.4	10.5	9.0	9.6	5.2	7.1
GROWTH IN MONEY SUPPLY	% PER YR	16.4	11.5	21.8	4.6	16.1	7.7
SAVINGS AND INVESTMENT							
GROSS NATIONAL SAVINGS	% OF GDP	6.4	14.2	14.1	15.3	14.3	13.6
NET INCOME FROM ABROAD	% OF GNS	17.2	53.3	54.0	60.5	45.1	25.4
FIXED CAPITAL FORMATION							
TOTAL	% OF GDP	15.6	18.6	18.8	18.4	17.9	17.8
GOV. & PUBLIC ENTERPRISE	% OF TOTAL	67.9	68.4	57.3	54.6	54.2	53.0
PRIVATE ENTERPRISE	% OF TOTAL	32.1	31.6	42.7	45.4	45.8	47.0
PUBLIC FINANCE							
REVENUES	MIL RP	14637	39928	52930	72999	94226	121174
EXPENDITURES	MIL RP	26103	53272	68281	98927	141143	167279
SURPLUS/DEFICIT	MIL RP	-11466	-13344	-15351	-25928	-46917	-46105
DEFICIT	% OF GDP	11.1	6.3	5.3	6.9	9.6	7.5
DEBT FINANCING							
DOMESTIC	% OF TOTAL	35.5	26.7	37.8	56.9	78.9	82.9
FOREIGN	% OF TOTAL	68.0	39.9	26.3	12.8	8.1	17.1
TRADE							
TRADE BALANCE	MIL US \$	-1157	-2876	-3403	-2965	-2406	0
REAL EXCHANGE RATE	RP PER US \$	12.0	12.2	14.8	16.3	16.2	16.4
RESERVES PER WEEKS OF IMPORTS	WEEKS	13.0	15.6	10.0	16.5	6.2	4.7
FOREIGN DEBT							
CURRENT ACCOUNT BALANCE	MIL US \$	-1049	-921	-802	-1195	-645	--
TOTAL EXTERNAL DEBT	MIL US \$	5553	9922	11958	13375	16289	18102
DEBT SERVICING	% OF EXPORT	24.0	23.1	46.9	43.0	36.8	--

SOURCE: INTERNATIONAL FINANCIAL STATISTICS 1989, IMF

balances, nor has it led to export diversification. Continued dependence on agricultural based exports, which generated 70 per cent of total exports in 1989, leaves Pakistan's foreign exchange

position highly vulnerable to external fluctuations that characterize international markets.

Sound monetary policies combined with deregulation have led to a relatively rapid increase in private, as opposed to public sector investment. Since 1980, the relative share of government and public fixed capital investment has declined 15.4 per cent and has been replaced by an equal increase in private fixed capital investment. Currently, public entities account for 53.0 percent of all capital investment and private entities 47.0 per cent.

Positive economic performance, however, has not been consistent across all indicators. While the composition of fixed capital investment has shifted in response to changes in government policies and regulations, the overall level of savings and investment has not increased and remained at relatively low levels throughout the 1980's. Gross National Savings, as a per cent of GDP, rose significantly in the late 70's as repatriated earnings from Pakistani's working in the Middle East expanded. By 1980, savings, driven by a three fold increase in net income from abroad, had more than doubled from 6.4 to 14.2 per cent of GDP. After 1980, savings stagnated, averaging 15.7 per cent of GDP per year. With a decline in repatriated foreign earnings of 45 per cent since 1986, there is serious concern over whether these low rates can be maintained into the future.

Future performance is also clouded by current government fiscal policy. Since 1980, deficit budget financing partially as

an offset to increasing defense expenditures has increased 43 per cent per year or from Rps 13.3 to 46.1 billion between 1980 and 1988. With relatively conservative monetary policies, deficit financing has not come from expansion in the money supply but borrowing. As fiscal deficits have increased, deficit financing has shifted from foreign to domestic sources. By 1988, domestic sources were relied upon to provide 83 percent of the deficit or 14 times 1980 levels. As borrowing increased, interest expenditures to service accumulating foreign and domestic debt expanded. By 1989, domestic interest payments alone had reached RPS 26.6 billion or 18 per cent of total government revenues.

With a negative balance of payments and conservative monetary policies, the major sources of deficit financing have been domestic savings - or more accurately net income transfers from abroad, official government reserves and foreign aid transfers. None of these sources can be relied on indefinitely. Official reserves are currently at dangerously low levels, and are sufficient to finance slightly over one month's worth of imports. Foreign remittances, a major contributor to domestic savings, have continue to drop precipitously since 1985, falling 57 per cent between 1985 and 1988. Finally, foreign assistance, although doubling between 1981 and 1988, has been highly variable, fluctuating as much as 60 per cent between years. With the withdrawal of Russian troops from Afghanistan in 1988 and the reduced threat of worldwide communism, US government assistance, which accounted for 30 to 40 per cent of annual aid levels, will

likely decline. Reductions in US support of US\$119 million between 1988 and 1989 are likely to continue and set the trend for the 1990's.

The above fiscal disequilibrium suggests that major restructuring of the nation's budget and/or improvements in government capacity to generate new revenues will be required. Restructuring is also required for another reason. As Table Two indicates, modest growth in the Pakistan economy has not resulted in the structural transformation that normally accompany

TABLE TWO. STRUCTURAL ADJUSTMENTS IN THE PAKISTAN ECONOMY

ITEM	1970	1975	1980	1985
SECTORAL SHARE OF GDP				
AGRICULTURE	36.8	32.0	29.5	25.3
INDUSTRY	22.3	23.4	24.9	27.2
SERVICES	40.9	44.5	45.6	47.5
DISTRIBUTION OF THE LABOR FORCE				
AGRICULTURE	58.9	56.8	54.6	52.0
INDUSTRY	14.8	15.9	16.0	17.0
SERVICES	26.3	27.3	30.0	31.0
IMPLIED OUTPUT PER WORKER				
AGRICULTURE	0.62	0.56	0.54	0.49
INDUSTRY	1.51	1.47	1.56	1.60
SERVICES	1.56	1.63	1.52	1.53

SOURCES: WORLD DEVELOPMENT REPORT 1989, WORLD BANK
INTERNATIONAL FINANCIAL STATISTICS 1989, IMF

NOTES: COMPUTED BY DIVIDING THE SECTORAL SHARE OF GDP BY THE DISTRIBUTION OF THE LABOR FORCE BY SECTOR.

growth. During the period from 1970 to 1985, agriculture's share of GDP declined 11.5 per cent, while the per cent of the labor force in agriculture declined only 6.9 per cent. In other words,

in 1970, 60 per cent of the agricultural labor force was producing 37 per cent of the nations product. By 1985, output per worker had dropped, with 52 per cent of that labor force producing only 25 per cent of the national product. This suggests a 21 per cent decline in the productivity of agricultural labor over 15 years a trend that Pakistan cannot afford in the future.

Unless a substantial portion of the labor force now employed in low productivity agricultural tasks can be shifted to more productive industrial and service sector employment, it is questionable if even the moderate growth rates of the 1980's can be sustained into the future. Major restructuring of government policies that encourage the rapid decline of inefficient government and public sector production and a rapid expansion of private sector investment in industry and services will be required.

B. Investments in Human Capital

Moderate economic performance has accompanied exceptionally poor performance in the development and maintenance of Pakistani human capital. Key to this poor performance has been Pakistan's inability to come to terms with rapid increases in population. At present growth rates, which have remained at 3.1 per cent per year since 1983, the current population of 103.8 million will double in 23 years. Rapid population growth means less for individual Pakistanis. For example, if replacement population rates of 2.0 per cent had been achieved in 1980, per capita GDP

would have increased 488 Rupees or 9 per cent per person in 1988.

Rapid increases in population have meant that limited social sector expenditures have had to be stretched over a larger and larger population base. Examining public expenditure rates over the decade, Table Three, it becomes evident that the nation has consistently under-invested in human capital resources.

TABLE THREE. SECTORAL ALLOCATION OF GOVERNMENT EXPENDITURES
- 1980 to 1986

ITEM	1980	1982	1984	1986
TOTAL EXPENDITURES (BIL. RP)	47.8	65.8	85.3	111.1
PERCENT OF GDP	22.7	21.2	23.7	26.9
SECTORAL ALLOCATION (% OF TOTAL)				
DEFENSE	30.6	33.5	32.3	29.5
EDUCATION	2.7	2.2	2.9	2.6
HEALTH	1.5	1.1	1.1	0.9
INFRASTRUCTURE	11.6	9.8	8.8	13.2
SOCIAL SECURITY	1.3	5.0	6.1	5.6
HOUSING	2.8	1.8	4.1	3.1
AGRICULTURE	2.1	1.4	1.1	1.0

SOURCES: INTERNATIONAL FINANCIAL STATISTICS 1989, IMF
GOVERNMENT FINANCE STATISTICS 1988, IMF

The armed conflict in Afghanistan, followed by rising tensions with India over the Kashmir has led to continued high public defence expenditures, declines in public health and education expenditures and an increase in social service expenditures primarily to meet the needs of the 3.4 million Afghan refugees. Between 1980 and 1988, investments in education and health declined .1 and .6 per cent respectively. By 1986, the last year data was available, investments in health, education, housing and

social security totalled only 12.7 per cent of all expenditures or less than 40 per cent of annual defense expenditures.

The impact of limited investments in human capital are evident in key human development indicators. As Table Four indicates, primary school enrollment while improving slowly since 1980 remains far below potential. By 1986, only 53 out of every 100 children could look forward to attending primary school ; and only 26 of those

TABLE FOUR. INDICATORS OF HUMAN DEVELOPMENT

ITEM	1980	1982	1984	1986	1988
EDUCATION					
PRIMARY SCHOOL ENROLLMENT	43.0	42.0	47.0	53.0	--
SECONDARY SCHOOL ENROLLMENT	14.0	15.0	17.0	24.0	--
PRIMARY SCHOOL COMPLETION RATE	--	--	--	--	49.0
ADULT LITERACY					
MALE	--	--	--	40.0	--
FEMALE	--	--	--	19.0	--
HEALTH					
LIFE EXPECTANCY AT BIRTH	49.2	50.0	50.8	51.5	51.9
INFANT MORTALITY (UNDER 1)	124.0	120.0	116.0	112.0	110.0
CHILD MORTALITY (UNDER 5)	--	--	--	192.0	166.0

SOURCES: WORLD TABLES 1988-89, WORLD BANK
STATE OF THE WORLD'S CHILDREN 1990, UNICEF
NOTES: 1985 ESTIMATES
1987 ESTIMATES

could expect to graduate. The literacy rate, which is heavily skewed in favor of males, suggests that what little educational services are available, are reserved for men. In 1985, only two out of every ten Pakistani women could read and write. Low female literacy rates help to maintain the country's high population growth rates, and continue to contribute to high infant and child

mortality rates. Currently, 10 out of every 100 children born can expect to die before their first birthday, and 17 out of a 100 before their fifth birthday.

When compared to other countries, Pakistan's human development performance leaves much to be desired. As Table Five indicates, although Pakistan has 14 per cent more income than the World Bank's average low income economy, infant mortality rates, life expectancy and primary school enrollment rates are all significantly lower than the low income country average. For example, infant mortality is almost double, life expectancy 85 per cent and primary school enrollments less than half the

TABLE FIVE. PAKISTAN'S COMPARATIVE PERFORMANCE IN HUMAN DEVELOPMENT

ITEM	PAKISTAN	ALL LOW INCOME ECONOMIES	THE POOREST NATION	THE RICHEST NATION
PER CAPITA INCOME (US \$)	330	290	130	18530
INFANT MORTALITY	109	62	154	10
LIFE EXPECTANCY AT BIRTH				
MALE	55	65	45	74
FEMALE	54	64	49	80
PRIMARY SCHOOL ENROLLMENT				
MALE	55	113	44	103
FEMALE	32	92	28	101

SOURCE: WORLD DEVELOPMENT REPORT 1989, WORLD BANK

average of the 31 countries that the World Bank designates as low income economies. When compared to the world's poorest country, Ethiopia, Pakistan has almost two and a half times as much income but the average Pakistani lives only seven years longer, has only

ten per cent more of his children in school and can expect one out of ten, not one out of eight, of his children to die within one year of birth.

The above analysis suggests quite clearly that Pakistan has consistently under-invested throughout the 80's in human capital development. Unless massive public defense expenditures can be reduced and reallocated to human development investments, the quality of life for the majority of Pakistani's will not improve. In fact, high defence expenditures and the resulting fiscal deficits when combined with continued high population growth rates set the stage for rapid declines in growth and prosperity.

C. Development of Democratic Pluralism.

A final set of indicators, and the most difficult to access, are those that measure the degree individual rights have been protected or enhanced in Pakistan during the period. This analysis relies on a set of indexes calculated by Raymond Gastel and published annually in Freedom of the World. The indices, which are calibrated on an ascending scale from seven to two, measure increasing political rights i.e. the ability of individual Pakistanis to effectively choose who manages the country and improvements in civil liberties, such as the right of expression, religion and education and protection against false seizure and imprisonment. In 1982, the first year the indices were calculated, Pakistan received a seven in the area of

political rights and a five with respect to civil liberties. The lowest political rights rating was awarded in recognition of the fact that individual Pakistani's had little or no political rights. At that time, the government was controlled by a centralized military dictatorship, political parties were officially banned, promised elections had been postponed indefinitely and the former Prime Minister had been executed following a political trial. Although local elections of limited significance were allowed, the influence of political parties, religious leaders, provincial leaders and the judiciary was tightly controlled and internal consensus within and between factions was waning. Because of the strong government control of the press, imprisonment and alleged torturing of political prisoners, limits on the right to assemble, and the curtailment of private rights, especially freedom of religion, freedom to organize and women's rights, Pakistan received a five rating with respect to civil liberties.

Through the six year period that the indices are available (1982 to 1988), both political freedom and civil liberties have improved since 1985. Although the national referendum held in 1984 to decide on the President's rule and Islam was considered by most international observers to be a farce, the 1985 nonparty assembly elections were not. Even though established political parties were banned from competing, many of their members actively campaigned. The result was the creation of a parliament that has increasingly shown its independence from the mixed

military/civilian government. As a consequence of these changes, Pakistan's political rights rating improved from seven to five.

The election of Benazir Butto in 1989 and the expansion in both political and civil liberties has resulted in further improvements in ratings. Political rights were enhanced with the opposition party's victory in the 1988 election, the formation of the Butto government and the initiation of a rapid transition from military/civilian rule to full parliamentary government. As a result, the political rights has again improved, falling from five to three. Complementary improvements in civil liberties, have led to similar improvements with ratings falling from five to three. While the government retains control over radio and tv, freedom of the press was re-established in 1988. Bans on the right to assemble and to demonstrate have been lifted. Restrictions on union activity, the requirement to conform teaching to Islamic doctrine and the limits that Islamic conservatism has placed on limiting freedom of religion and women rights continue. There are early indications, however, that the underpinnings of this conservative position, Islamic fundamentalism, that was such an important to previous regimes, might be abandon or significantly modified under the Butto regime.

SUMMARY

Throughout the last decade, Pakistan has experienced moderate

economic growth, averaging above 6.0 per cent per year. Although impressive, there are indicators that these growth rates cannot be sustained. Unregulated growth in population of 3.1 per cent continues to absorb a significant proportion of economic growth. High and continuous military expenditures, averaging over 30 per cent of all government expenditures during the period, have led to unsustainable budget deficits. Faced with declining repatriated earnings from Pakistanis working abroad, formerly the major source of deficit financing, the government must increase and diversify export earnings, improve industrial and service sector productivity and/or increase the revenue generating capacity of government just to maintain the status quo. Restructuring government revenues and expenditures, adoption of policies that lead to the rapid expansion of private savings and investment and the resolution of the constraints that are inhibiting the rapid transfer of labor out of agriculture will be required if Pakistan is to be able to provide its citizens the economic choices they will demand in the future.

In addition, the abysmal human capital development record must be reversed. Pakistan needs to declare a peace dividend, to find new ways of reducing military expenditures and of channeling savings to increase support for universal primary education, for both boys and girls, to intensify the coverage and content of family planning and maternal health care programs and to develop effective yet efficient safety nets for those citizens who for whatever reason will not be able to participate or benefit from

economic growth.

In contrast to the abysmal record in human capital development, Pakistan has carried out an impressive expansion in civil and political liberties since 1985. New initiatives to expand women's rights, reduce remaining government control of electronic media and rescind the worst abuses of Islamic fundamentalism must accompany improvements in the freedom of the press, assembly and association that have already occurred. In the future, the greatest challenge facing the new regime will be how successful the new regime will be in harnessing the support of the new political coalitions that are forming to solve the difficult structural adjustments that must be tackled to sustain development.